



U.S. House of Representatives
Committee on Transportation and Infrastructure

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MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on "Creating Jobs and Increasing U.S. Exports by Enhancing the Marine Transportation System."

PURPOSE

On Tuesday, June 14, 2011, at 10:00 a.m., in room 2167 of the Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine the current condition of the Marine Transportation System (MTS), as well as explore ways to enhance the MTS to create jobs, improve the flow of commerce, and increase U.S. exports.

BACKGROUND

The Maritime Transportation System

The Marine Transportation System consists of waterways, ports, and intermodal landside connections that allow for the movement of people and goods to, from, and on the water. The MTS includes nearly 25,000 miles of navigable channels, 238 locks at 192 locations, the Great Lakes and St. Lawrence Seaway, over 3,700 marine terminals, over 174,000 miles of rail, over 45,000 miles of interstate highway, over 115,000 miles of other roadways, and over 1,400 designated intermodal connections

Ongoing maintenance and continued enhancement of the MTS is vital to the U.S. economy. The MTS facilitates nearly all international trade and moves a vast portion of domestic goods and materials. The movement of cargo and associated activities on the MTS add more than \$649 billion annually to the U.S. Gross Domestic Product, sustaining

more than 13 million jobs, and contributing over \$212 billion in annual federal, state, and local taxes.

The MTS provides the backbone for sustainability of the U.S.-flag domestic cargo fleet. The U.S. domestic fleet is made up of 40,000 vessels (mostly tugs and barges) that move over one billion tons of cargo annually on U.S. waterways. U.S. vessels also provide passenger services to over 40 states and territories in the MTS. A total of 220 ferry operators transport an estimated 147 million passengers on an annual basis, generating an estimated \$1.35 billion in yearly revenue.

Expansion of U.S. foreign trade is also dependent on a safe, secure and well maintained MTS. Approximately 99 percent of the volume of overseas trade (62% by value) enters or leaves the United States by water. In 2010, a total of 9,260 individual vessels, from 90 different flag administrations, made 76,372 port calls to the United States. The economic cost of a one week shut down at major U.S. port is estimated by the Congressional Budget Office to exceed \$140 million.

Finally, the MTS transports bulk commodities and manufactured goods critical to our national and economic security. In addition, the ports and waterways moving commercial and consumer goods also move military equipment and supplies essential to national security.

Committee on the Marine Transportation System

Background:

Section 308 of the Coast Guard Authorization Act of 1998 (P.L. 105-383) established a task force to determine the adequacy of the nation's marine transportation system. On December 17, 2004, following the recommendations of the task force and a subsequent interagency committee, President Bush directed the establishment of the Committee on the Marine Transportation System (CMTS).

CMTS is a federal cabinet-level, inter-departmental committee chaired by the Secretary of Transportation. The movement of people and goods through the MTS touches 50 separate federal government programs. The mission of the CMTS is to facilitate interagency cooperation to ensure the development and implementation of national MTS policies that are consistent with national needs and to report to the President its views and recommendations for improving the MTS.

The other members of the CMTS are the Secretaries of Agriculture, Commerce, State, Defense, Labor, Homeland Security, Interior, Energy, Treasury, the Attorney General, the Chairman of the Joint Chiefs of Staff, the Administrator of the Environmental Protection Agency, the Chairman of the Federal Maritime Commission, the Assistant to the President for Homeland Security, the Assistant to the President for Domestic Policy, and the Assistant to the President for Economic Policy.

National Strategy for the Marine Transportation System:

In July 2008, the CMTS released its *National Strategy for the Marine Transportation System: a Framework for Action*. The strategy is a five-year action plan with the goal of addressing issues affecting the MTS over the next decade. It identifies current challenges to marine transportation including:

- increased cargo and passenger traffic over the next decade which will intensify congestion, lead to space and capacity constraints, and could cause infrastructure failures;
- maintaining a safe and secure MTS with unduly affecting the flow of commerce;
- regulating the environmental impacts of increased traffic on the MTS;
- planning for contingencies such as natural disasters, labor-management disputes, foreign political instability and other events which have the potential to shut down significant parts of the MTS;
- determining new and innovative ways to finance MTS infrastructure needs.

To address these challenges, the strategy identifies needs for action in five priority areas:

1. Capacity – to address current and future capacity issues, improve the efficiency of the MTS and reduce congestion, the strategy calls for: improved collaboration among stakeholders in the infrastructure planning process; expansion of shipping on marine highways; incentives for private sector investment in infrastructure and operation technology; improved collection and dissemination of maritime data such as navigation, weather and traffic information for waterways users; and standardized container management procedures.
2. Safety and Security – to ensure the safety and security of the MTS, the strategy calls for: coordination of existing federal navigation programs to reduce duplication and improve efficiency; promotion of navigation technology research and development; enhanced coordination among maritime stakeholders to improve security awareness and reduce accidents.
3. Environmental Stewardship – to protect the environment and ecosystems affected by the MTS, the strategy calls for: supporting MTS infrastructure projects that improve air quality, reduce greenhouse gas emissions and reduce congestion; supporting research to control and mitigate the effect on the marine environment of pollution and invasive species; promoting coordinated regional and watershed management efforts; and harmonizing state, federal and international environmental standards.
4. Resilience and Reliability – to ensure the resilience and reliability of the MTS, the strategy calls for: providing coordination, expertise and resources to ensure continuity of operations and the resumption of commercial marine activities following a disruption; developing capacity and coordinating with industry on response and recovery operations; collaborating on a solution to jurisdictional

issues surrounding abandoned vessels and damaged bridges; and developing strategies to address climate change impacts on the MTS.

5. Finance and Economics – to finance projects to improve MTS infrastructure, the strategy calls for: commissioning a study on alternative approaches to financing the construction, rehabilitation, and maintenance of MTS infrastructure projects; studying ways to prioritize limited federal funding for infrastructure projects; and ensuring project cost allocations to consider environmental and human health costs and promotes economic efficiency.

To implement this strategy, the CMTS established a work plan to define, assign, schedule, and execute the recommended actions.

Growing Jobs and Expanding Exports

The federal government has several laws and programs in place to ensure the U.S. maritime sector can remain competitive in the global economy.

Jones Act:

The Jones Act first came into effect as part of the Merchant Marine Act of 1920 to encourage a strong U.S. Merchant Marine for both national defense and economic security. The Jones Act contains a number of provisions designed to protect U.S. shipbuilding and mariner jobs:

1. U.S. Owned and Flagged - Chapter 551 of title 46, United States Code requires that merchandise and passengers being transported by water between two U.S. points must travel on U.S.-citizen owned vessels documented (flagged) in the United States with a coastwise endorsement.
2. U.S. Built - Chapter 121, of title 46, United States Code requires vessels seeking a coastwise endorsement to have been built in the United States.
3. U.S. Crewed - Chapter 81, of title 46, United States Code requires the master, all of the officers, and at least three-quarters of the crew to be U.S. citizens in order for a vessel to be documented in the United States.
4. Rebuild/Reflag Prohibition - Chapter 121 also prohibits vessels that were once eligible to engage in the U.S. coastwise trade and then later sold to a foreign citizen, or documented under a foreign registry, or rebuilt outside the United States from engaging in the coastwise trade (a vessel may be considered rebuilt when work performed on its hull or superstructure constitutes more than 7.5 percent of the vessel's steelweight prior to the work).

Cargo Preference:

In an effort to ensure essential sealift capacity and guarantee a skilled cadre of U.S. seafarers, Congress enacted several laws beginning in 1904 to require certain percentages of government impelled cargo to be carried on U.S.-owned, U.S.-flagged, and U.S. crewed vessels. Government impelled cargo is oceanborne cargo that is moving either as

a direct result of federal government involvement, or indirectly through financial sponsorship of a federal program, or in connection with a guarantee provided by the federal government. The following is a breakdown of the percentages of cargo required to be carried on U.S.-owned, U.S. flagged, and U.S.-crewed vessels under the Cargo Preference Program:

- Military Cargo - 100% (governed by Military Cargo Preference Act of 1904);
- Export Import Bank - 100% (governed by Public Resolution 17);
- Federal Civilian Agencies Cargo - at least 50% (governed by Cargo Preference Act of 1954); and
- Agricultural Cargoes - at least 75% (governed by the Food Security Act of 1985)

Chapter 553 of Title 46 authorizes the Secretary of Transportation to enforce cargo preference laws and ensure other federal agencies carry out the law as intended. In April 2011, the Department of Transportation reached an agreement with the Department of Energy to ensure certain cargo financed by federal government loan guarantees authorized under Title XVII of the Energy Policy Act of 2005 (P.L. 109-58) complied with cargo preference laws. Prior to this agreement, the Department of Energy allowed renewable energy systems and other cargo financed through these loan guarantees to be transported by foreign flagged, owned, and crewed vessels.

Maritime Security Program:

The Maritime Security Act of 1996 establishes the Maritime Security Program which provides direct financial assistance to the operators of U.S.-owned, U.S.-flagged, and U.S.-crewed vessels to make their vessels available to support military sealift during times of national security or war. Currently, 13 vessel operators operating 60 vessels receive \$2.1 million per vessel per year under the Maritime Security Program.

Domestic Shipbuilding Programs:

In addition to the Jones Act, the federal government directly supports the viability of the domestic shipbuilding industry through a combination of programs including:

1. Capital Construction Fund – First established in the Merchant Marine Act of 1936, the Capital Construction Fund (CCF) enables U.S. vessel operators to defer federal income taxes on their income by depositing the income in a CCF. Income deposited in a CCF may only be used to finance the construction of a vessel built or rebuilt in a U.S. shipyard.
2. Title XI Federal Ship Financing Program – Pursuant to Chapter 537 of title 46, United States Code, the Title XI program provides federal government loan guarantees for (1) vessel operators for the purpose of financing or refinancing the construction or reconstruction in U.S. shipyards of U.S. flag vessels or certain other vessels, and (2) U.S. shipyards for the purpose of financing

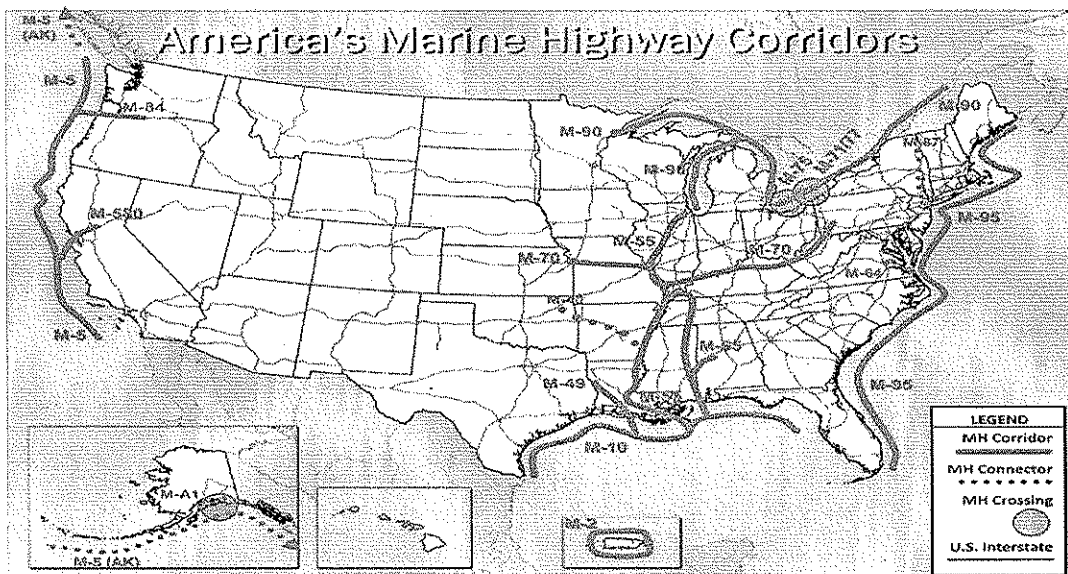
advanced shipbuilding technology and modern shipbuilding technology for a facility located in the U.S.

3. Small Shipyard Grants – The National Defense Authorization Act of 2006 established the Small Shipyard Grant Program. Under the program, U.S. owned and operated shipyards with less than 1,200 employees are eligible to receive matching grants from the federal government to finance capital improvements and equipment purchases.
4. Tariffs – Under the Smoot-Hawley Act of 1930, U.S. vessel operators are liable for a 50 percent duty on maintenance and repairs performed on their vessels at overseas shipyards.

Marine Highways Program:

Use of the extensive network of “marine highways” (rivers, canals and coastal routes) in the U.S. is the most economical, environmentally sustainable, and safest mode of commercial freight transportation. This is due to the enormous capacity of a barge or ship. For example, a typical inland barge has a capacity 15 times greater than one rail car and 60 times greater than one semi trailer truck. Transporting goods by water moves them off highways and reduces landside congestion.

Section 1121 of the Energy Independence and Security Act of 2007 (P.L. 110-140) directs the Secretary of Transportation to establish a short sea transportation program and designate short sea transportation projects to mitigate landside congestion. Using this authority, the Secretary has designated 11 Marine Highway Corridors, 4 Connectors, and 3 Crossings that can serve as extensions of the surface transportation system.



emissions or other environmental concerns and challenges. Corridors are generally longer, multi-state routes whereas Connectors represent shorter routes that serve as feeders to the larger Corridors. Crossings are short routes that transit harbors or waterways and offer alternatives to much longer or less convenient land routes between points.

The Secretary has also designated eight Marine Highway Projects along the Corridors, Connectors and Crossings. These projects, sponsored by local transportation planning officials and port authorities represent new or expanded marine highway services that offer promise of public benefit and long-term sustainability. Section 3515, of the National Defense Authorization Act for Fiscal Year 2010 (P.L. 111-84) allows designated Marine Highway Projects to compete for grants to enhance infrastructure, acquire equipment and make other improvements to facilitate service along a designated Corridor. To date \$7 million has been awarded to six entities for this purpose, as well as to study other potential marine highway service concepts.

WITNESSES

The Honorable David Matsuda
Administrator
Maritime Administration

Mr. Joseph J. Cox
President & CEO
Chamber of Shipping of America

Mr. Michael Roberts
Chief Counsel
Crowley Maritime Corporation
on behalf of
American Maritime Partnership

Mr. Augustin Tellez
Executive Vice President
Seafarers International Union

Mr. John Mohr
Executive Director
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